News Release

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GOVERNMENT ANNOUNCES 1996-97 DEFICIT -- $8.9 BILLION

Finance Minister Paul Martin today announced that the final deficit for 1996-97 was $8.9 billion, almost $20 billion down from the previous year, and the largest year-over-year improvement in Canadian history.

"This represents the smallest federal government deficit in over two decades — indeed, as a proportion of our economy, at 1.1 per cent of the gross domestic product (GDP), it is the lowest deficit recorded since 1970-71," Minister Martin said. By comparison, in 1993-94, the deficit was $42 billion and represented about 6 per cent of GDP.

The Minister made the announcement in releasing the government's annual *Economic and Fiscal Update* to the House of Commons Standing Committee on Finance which is meeting in Vancouver to launch this year's consultations leading to the 1998 budget. The update outlines economic and fiscal developments since the last budget and highlights certain areas on which the government intends to focus to meet its goal of building a strong economy and a strong society.

Mr. Martin noted that the deficit in the current fiscal year is continuing to decline and the government is committed to achieving a balanced budget no later than the next fiscal year, 1998-99. It will be the first year the federal government's books have been balanced since 1969-70.

He said the government's plan for economic growth and job creation is clearly working. It has broken the vicious circle of high deficits, high interest rates, slow economic growth and high unemployment, and created a virtuous circle of lower deficits leading to lower interest rates, stronger economic growth and greater job creation which, in turn, create higher government revenues and even lower deficits.

"It is this strong virtuous circle that underlies the unprecedented progress Canada has made — and will continue to make," Mr. Martin said. He attributed the decline in the deficit to several factors: the restraint measures announced in the 1994 and 1995 budgets and the new expenditure management system which reduced federal program spending between 1993-94 and 1996-97 by $15.2 billion to just under $105 billion; a stronger economy which created more jobs, thereby increasing government revenues; one-time factors which increased budgetary revenues in 1996-97; and some revenue-raising

measures primarily designed to enhance the fairness of the tax system and to reduce tax preferences.

Mr. Martin said lower deficits and lower interest rates are having a powerful and positive impact. Consumer confidence is at its highest level in eight years and business confidence is at record levels. Sales of consumer goods are strong, housing resales have rebounded and business investment is surging ahead. He offered further evidence of the growing strength of the Canadian economy.

- One-year mortage rates have fallen over four percentage points since January 1995 and, during the first eight months of this year, 279,000 net new jobs were created; the vast majority of these were full-time and all in the private sector. The last four months have also seen the biggest improvement in youth employment since 1990, with some 63,000 jobs filled by young people.

- Five-year mortgage rates today are at their lowest level in decades.

- The economy has grown at an average annual rate of 3.7 per cent from mid-1996 to mid-1997. Real GDP grew at an annual rate of 4.9 per cent during the second quarter of 1997.

- The consensus among private sector forecasters is that the Canadian economy will grow by 3.7 per cent in both 1997 and 1998 — the strongest back-to-back growth in a decade as well as the strongest in the G-7.

- Core inflation has remained at or below 2 per cent for the past 21 months.

- Short-term interest rates are almost 2 percentage points lower than American rates. Two-and-a-half years ago, Canada's short-term rates were 2.5 percentage points higher than U.S. rates. Since last February, Canadian 10-year bond rates have been consistently lower than those in the U.S., an unprecedented development, reflecting in part, reduced risk premiums attached to Canadian assets.

The Economic and Fiscal Update shows that Canada's financial requirements were eliminated in 1996-97. In fact, in 1996-97, the country recorded its first financial surplus since 1969-70 and was the only G-7 country to do so. Using financial requirements as a measure of the deficit, which is the practice in many industrialized countries, shows that Canada is in the best fiscal health of the G-7.

"This meant that, for the first time in 27 years, it was not necessary for the federal government to borrow new money to pay for ongoing programs, nor to pay for interest costs," the Minister said. "Even more to the point, thus far this year, we have actually been paying down marketable debt. This is indeed a significant milestone for Canadians." (Marketable debt is the portion of the national debt owed to financial markets in the form of bonds, Treasury bills and other debt instruments.)

He said that the government will continue to follow its prudent guidelines for financial management: two-year fiscal plans in federal budgets; prudent economic assumptions; and a Contingency Reserve to handle unforeseen circumstances and errors in the economic forecast.

As a result of the lower-than-expected federal deficit in 1996-97, Canada's debt-to-GDP ratio fell to 73.1 per cent — the first significant reversal after 25 years of virtually uninterrupted increases — and will continue to decline in the coming years. But the Minister noted that Canada's debt burden remains very high by any standards. He said the government is committed to a permanent decline in the debt-to-GDP ratio.

The government welcomes a broad public debate about how to use the fiscal dividend — the projected surplus of total revenues over total spending that would arise in the absence of any new tax and spending actions since the 1997 budget. Mr. Martin said that the 50:50 allocation of the fiscal dividend, among expenditures to address economic and social needs and among tax cuts and debt reduction, will be used as a guiding principle for planning purposes. The annual allocation will vary from year to year. The final allocation can only be assessed after totalling all of the spending, tax and debt reduction actions undertaken in all of the budgets during the mandate and the year-end audited outcomes.

Regarding the tax burden, Mr. Martin said, "Canadians have a right to expect that, when their country's financial health is firmly secured, they can look forward to an easing of their tax burden. And I can assure them that this will take place... And a priority in doing this will be to provide tax relief to low- and middle-income individuals and families."

He said that the debate about the fiscal dividend should go beyond the three main options which have been discussed up to now: increasing spending; reducing taxes; and reducing the debt.

"The debate should be about national priorities — about how best to build a strong economy and a strong society, one of both opportunity and security," the Minister said. "What we must do is to ensure that the quantity of growth we all seek contributes to the quality of life Canadians deserve."

He outlined the government's priorities: preserve and improve Canada's valued programs — health care, education and pension systems; enhance lifelong learning and training opportunities; and foster and seize opportunities to make Canada a leader in the global, knowledge-based economy. In pursuing these priorities, Canadians must continue to act on a new ethic of partnership, anchored in the national interest, and involving provinces, the private sector and communities.

Mr. Martin also released the *Annual Financial Report* of the Government of Canada for fiscal year 1996-97, a detailed account of the government's finances which has been audited by the Auditor General.

For further information:

Internet: http://www.fin.gc.ca/

Paul-Henri Lapointe
Economic and Fiscal Policy Branch
Ottawa: (613) 996-0321

Jeremy Rudin
Economic and Fiscal Policy Branch
Ottawa (613) 992-2370

Harry Adams
Consultations and Communications Branch
Ottawa (613) 992-1574